

ANALYSIS OF ORIGINAL BILL

Franchise Tax Board

Author: Strickland Analyst: Kristina E. North Bill Number: AB 2603
Related Bills: See Legislative History Telephone: 845-6978 Introduced Date: February 25, 2000
Attorney: Patrick Kusiak Sponsor: _____

SUBJECT: Charitable Contribution Deduction/Non-itemizers

SUMMARY

Under the Personal Income Tax Law (PITL), this bill would allow individuals who claim the standard deduction to deduct 50% of allowable charitable contributions over \$100 in arriving at taxable income.

EFFECTIVE DATE

This bill would be effective immediately upon enactment and would apply to taxable years beginning on or after January 1, 2001, and before January 1, 2006.

LEGISLATIVE HISTORY

S. 2077 (Santorum) and H.R. 1310 (Crane), which are identical federal bills, would allow individuals who do not itemize deductions to claim a direct deduction for 50% of allowable charitable contributions over \$500.

SPECIFIC FINDINGS

Current federal and state tax laws allow a taxpayer to subtract the greater of the standard deduction or his or her itemized deductions to calculate taxable income.

Current federal and state tax laws allow a taxpayer to include charitable contributions in itemized deductions when computing taxable income. Charitable deductions are allowed for monetary contributions or gifts of property to federal, state, or local governments, to organizations formed for religious, charitable, educational, scientific, or literary purposes or for the prevention of cruelty to children or animals. Contributions to a post or organization of war veterans are also deductible.

Current federal and state tax laws place limitations on charitable contributions that exceed 20% of the individual's AGI. The limitations vary from 20%, 30%, or 50%, depending on the individual's AGI and the amount of contributions made, the types of organizations that receive the donations, and the type of property donated. If an individual's charitable contributions are limited, the excess may be carried over for five years.

For taxable years beginning on or after January 1, 2001, and before January 1, 2006, **this bill** would allow an individual taxpayer claiming the standard deduction also to deduct 50% of charitable contributions over \$100. The allowed contribution must qualify as a charitable contribution under current law.

Board Position:

_____ S	_____ NA	_____ NP
_____ SA	_____ O	_____ NAR
_____ N	_____ OUA	_____ X PENDING

Department Director

Date

Alan Hunter for GHG

4/13/00

Policy Considerations

Under previous federal and state law, taxpayers who did not itemize were allowed to deduct charitable contributions. At that time, the standard deduction was built into the tax brackets and did not actually appear on the tax return. In 1987, federal law was amended to remove the standard deduction from the tax brackets and to eliminate charitable contribution deductions for taxpayers who do not itemize. California's PITL largely conformed to these changes. The department has since encouraged continued federal conformity to simplify the tax process and reduce taxpayer confusion. This bill would conflict with that general tax policy by creating differences between state and federal law.

Implementation Consideration

The calculation provided in this bill could be interpreted in various ways. It is unclear whether the \$100 threshold amount should be deducted before or after the 50% calculation. For example, assume \$500 in charitable contributions. The allowed deduction could be either Alternative A: \$500 minus \$100 times 50% (for a deduction of \$200) or Alternative B: \$500 times 50% minus \$100 (for a deduction of \$150.) Author's staff has indicated that Alternative A reflects the author's intent. Amendment 1 is provided to assure this result.

Technical Considerations

The author may wish to consider changing the repeal date to December 1, 2006, to clarify that fiscal year filers are allowed the deduction for their 2005 fiscal year.

FISCAL IMPACT

Departmental Costs

This bill would require an additional line on all tax returns and new data capture, which could result in increased contact from taxpayers regarding this deduction. It is estimated that this bill would cost the department approximately \$675,000 to implement, with ongoing costs of approximately \$540,000.

Tax Revenue Estimate

This bill is estimated to impact PITL revenue as shown in the following table.

Fiscal Year Cash Flow Taxable Years Beginning After December 31, 2000 Enactment Assumed After June 30, 2000 \$ Millions			
2000/2001	2001/2002	2002/2003	2003/2004
Minor Loss*	-\$34	-\$31	-\$32

* Loss less than \$500,000

This analysis does not consider the possible changes in employment, personal income, or gross state product that could result from this bill.

Tax Revenue Discussion

The revenue impact for this bill will be determined by those individuals who do not itemize their deductions and make direct charitable contributions, the amount of their contributions, and the average marginal tax rate applicable to the deduction amounts.

This estimate was developed in the following steps using information from prior state law, which allowed contribution deductions to non-itemizers. First, based on the 1986 FTB Annual Report, there were approximately 7.3 million non-itemizers, of which 3.2 million reported charitable contributions, or approximately 45% of the total. The average contribution amount was approximately \$500. Second, for this analysis, it was assumed that the average contribution amount would be \$650. Third, by using the Department's PIT model, an average deduction amount of \$275 (\$650 - \$100 multiplied by 50% as stated in the bill) was imputed for all non-itemizers, generating approximately \$65 million in potential revenue loss for tax year 2001. This number was adjusted upward by 5% to account for incentive effects, yielding approximately \$68 million for tax year 2001. Fourth, it was anticipated that based on prior state experience, 45% of all non-itemizers would make charitable contributions, generating a total revenue loss under this bill of approximately \$30 million (\$68 million x .45) for tax year 2001.

BOARD POSITION

Pending.

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FRANCHISE TAX BOARD'S
PROPOSED AMENDMENTS TO AB 2603
As Introduced February 25, 2000

AMENDMENT 1

On page 2, delete lines 14 through 21 and insert:

after January 1, 2001, and before January 1, 2006, there shall be allowed to a qualified taxpayer as a deduction under this part, one-half of the qualified amount.

(b) For purposes of this section, "qualified taxpayer" shall mean any individual who does not itemize his or her deductions for the taxable year on any return filed under this part or Part 10.2.

(c)(1) For purposes of this section, the "qualified amount" shall equal the amount otherwise allowable as a charitable contribution deduction under Section 170 of the Internal Revenue Code, less one hundred dollars (\$100).

(2) The portion of the qualified amount not allowed under subdivision (a) shall not be allowed as a deduction under any other section of this part.

(d) This section shall remain in effect only until